

November 6, 2020

**Kambi Group**

Q3 2020



## Prepared Remarks

---



Good morning, welcome to Kambi's third quarter result presentation. I'm Kristian Nylén, Chief Executive, and joining me is our CFO, David Kenyon. Please turn to Slide two. I will begin with a brief overview of what was a record Q3, after which David will take you through a financial performance. I will speak about the quarter in a little bit more depth, and also a few updates from Q4 so far. First, on Slide three, let me give you a brief introduction to Kambi. Kambi is the industry's trusted and independent sports betting supplier. Our multi-channel service is managed through an in-house-developed platform, which has been continuously developed over the last decade. The platform, together with 860 highly skilled staff, forms the foundation of our service. The Kambi Sportsbook consists of multiple elements.



From front-end user interface and open API, through to odds compiling, customer intelligence, and risk management, enabling our customers to offer their players a tailored and leading sportsbook experience from day one. On to Slide four. Kambi's business is built upon a revenue share model, with our growth linked to our partners' success. The foundation of our strategy is based on scalability. At no additional cost to our partners, Kambi continuously invest in products, people, and technology to maintain market leadership. We operate an experienced in-house trading and risk management team to optimize operator trading margin, and our business is underpinned by our corporate probity and integrity, and we have successfully obtained all licenses we have applied for. All of this combined enable us to offer our partners the flexibility and scalability required to succeed in today's highly regulated and global market.



Our technology has been structured in a way that enables Kambi and its partners to quickly and efficiently comply with regulatory requirements, removing a major barrier to market, and allowing them to enter new markets as and when they require. Kambi is a trusted partner to more than 30 operators across six continents, including some of the most recognizable and successful brands in the industry. Together, they create a powerful network of operators, which combine to generate powerful data insight that we use to inform and continuously iterate our product and service. Let's look at the highlights on Slide five. Before looking at the highlights, let me reflect a bit on the pandemic and the impact on our business going forward. I'm proud of how well and prompt our staff have reacted to the changing circumstance, being ready to provide our operators with top-quality service regardless of the circumstances.



What we have seen from the heightened restrictions across Europe in the last weeks, top-tier sports seem to be shielded. I believe sports federations have shown they can run operations in a relatively safe manner, and it has been a very positive impact on people to be able to enjoy sports also in a lockdown. We hope this can continue, of course, as it will significantly limit any impact on our business going forward. Q3 was a record quarter for Kambi, with revenue up 22% and operator turnover up 62% year-over-year. We also demonstrated the scalability within our business model, posting an operator margin of 23%. We signed a new partner in Churchill Downs, which operates the BetAmerica sportsbook brand in the U.S. This is a great partner win for us, and I will speak more about this later. We also extended our partnership with LeoVegas.



Not only does this extend the length of our agreement, it also expands the partnership to cover additional brands by LeoVegas. As has become the norm, we have supported our partners with many launches, including the Barstool Sportsbook launch with Penn National Gaming. For now, I will hand over to David, who will talk you through the financial highlights, turning to Slide six.



Thank you, Kristian. Good morning, everyone. In Q3, we had revenue of €28.1 million, up 22% from last year. For the year to the end of September, revenue was EUR 70.8 million, up 8% from last year. Operating costs for the quarter were EUR 21.6 million, giving an operating profit of EUR 6.5 million at a margin of 23%. Whilst for the first nine months, we made an operating profit of EUR 10 million at 14%. Let's look at the income in more detail, turning to slide seven. This slide sets out the Kambi turnover index with the graph showing the aggregated results of Kambi's operators. The turnover is the total stakes placed with the operators by their end users.



In Q3, operator turnover was up by 62% on Q3 last year, reflecting the opening up and growth of the market in various U.S. states such as Pennsylvania, Indiana, and Illinois, and the return of the sporting calendar after the heavy impact of the global pandemic in Q2. The first part of the quarter saw the conclusion of the main European soccer leagues and the final stages of the Champions League. In September, we saw the start of the new seasons for the soccer leagues and the NFL. It's extremely positive to note that operator turnover accelerated through the quarter, with 43% of the quarter's total being generated during the month of September. The margin represents the combined trading margin made by the operators. In Q3, this margin was 7.2%. We can see the split of operator GGR by region on slide eight.



With the growth of the total business, the European GGR was up 11% on the same quarter last year. Q3 saw a resumption in the growth trend of the Americas GGR, driven by the return of the main U.S. sports and the entry into new U.S. states. With this being the first full quarter of revenues in Illinois and Colorado, for example. We can see the conversion from the movement in operator turnover to our revenue on slide nine. Operator turnover, post-foreign exchange impact, was up by 62% compared to Q3 2019. The comparative operator trading margin was very high in Q3 last year, so the increase in operator GGR was 38%. The effect of the significantly increased level of operator NGR was to decrease the effective commission rates charged to our operators due to the tiered structures in some contracts.



The net effect is the revenue for Q3 2020 is up by 22% on Q3 last year to EUR 28.1 million. Let's turn to the full income statement on slide 10. Operating expenses for the third quarter are EUR 21.6 million, up from EUR 18.1 million last quarter as our operations returned to pre-COVID levels. Looking ahead to Q4, we anticipate costs will increase by 5% to 8% as we press ahead with our U.S. license applications and data supply costs reflect the busy sporting calendar. The operating profit for Q3 was EUR 6.5 million, up from EUR 3.4 million in Q3 last year, and EUR 10 million for the first nine months, up from EUR 8.6 million. The profit after tax for Q3 was EUR 5.1 million and EUR 6.8 million for the first nine months. Let's look at the cash flow on slide 11.



Set out on this slide are the major components which impacted our cash position during the quarter. Our opening cash balance was EUR 46.4 million. The cash inflow from the operating profit was temporarily offset by a negative cash movement in our working capital. Trade receivables increased in the quarter, predominantly due to a much higher level of invoiced amount in the months preceding the quarter end compared to in Q2. A large part of these amounts have been received after the end of the quarter. Capitalized development costs in the quarter were EUR 3.6 million, whilst the amortization charge on previously capitalized costs was EUR 3.2 million. The net cash outflow for the quarter was EUR 0.5 million, and our closing cash balance, EUR 45.9 million.



In summary, our financial performance, which showed a high level of resilience earlier in the year, this quarter reflected the business's ability to respond immediately to the resumption of sport and demonstrated the inherent scalability in the business model. Now let me pass you back to Kristian, turning to slide 12.



Thanks, David. In August, we signed a new partner in Churchill Downs, which is a large multi-state business in the US with a fantastic heritage in sports, and in particular racing, hosting one of the most prestigious events in the racing calendar, the Kentucky Derby. Churchill Downs operates the BetAmerica sports betting brand, which has been active in a few states for a couple of years. They have yet to really invest in the marketing of the brand, but plan to do so once they have transitioned to the Kambi Sportsbook. They also operate a racing platform called TwinSpire, which has enjoyed great success in the US. Churchill Downs plans to align this closely with BetAmerica, and as we have seen with the success of ATG, there is a good crossover between those that bet on racing and those that bet on other sports.



Churchill Downs is an exciting partner for us. We are already live on property in two states and will add more in the near future. The company also had great market access. BetAmerica has a great opportunity to become one of the leading sportsbook brands in the U.S. for years to come. Turning to slide 13. As I have said before, extending partnerships is just as important as adding new partners. I'm delighted to have signed a new agreement with LeoVegas. Not only is this an extended agreement, but it's also an expanded one with additional brands added to the contract, and we are already live with two of those brands in the U.K. market. LeoVegas has been successful in using the Kambi technology to build a unique sportsbook experience, and we look forward to supporting their development over the coming years. Turning to slide 14.



Q3 also saw the much anticipated launch of Penn National's Barstool Sportsbook. The launch in Pennsylvania was a success. Penn themselves pointed out last week in their report. We look forward to supporting the launch of the app in multiple states over the next 12 to 18 months. The app itself is a great demonstration of what's possible with Kambi's technology. Kambi acts as a blank canvas for operators that wish to develop something unique on our platform, which Penn has successfully done here, creating their own proprietary app and IP built in-house with them with no Kambi code. Furthermore, Penn has also been leveraging our price differentiation tool to differentiate themselves further in the market, while we have also had great success in using the Barstool personalities to create unique betting opportunities for their fans.



As you can see on this slide, for example, players can bet with or against Dave Portnoy, the Barstool Sports founder. Overall, I'm confident about the next 12 months will bring as we support Penn in creating a leading omni-channel experience with retail channel also a major focus for them. Moving to slide 15. In total, Q3 saw 17 partner launches in the U.S., with three online and 14 on property. As you can see on the slide, these launches spanned seven customers in seven states. Of the states we have launched sports betting since the repeal of PASPA, the Kambi Sportsbook is live in more properties than any other B2B or B2C sportsbook. Turning to slide 16. In the events of the Q3, we recently launched in Tennessee, our 12th state, enabling DraftKings to be in the first tranche of operators to go live in the state.



Tennessee is online only due to the fact that they have no land-based casinos. It's worth noting that Tennessee shares a border with eight states, none of which currently offer online sports betting. As we have seen in elsewhere, investors are more than willing to cross the state line in order to place bets on mobile. We may see similar in Tennessee, which will increase their potential market size. In events of the Q3, we also signed with Bally and National Lottery. I will get into more depth on that exciting partnership in our Q4 report. Turning to slide 17. On this slide, you can see the scale we have built in the U.S. We are active in 12 states and operating sportsbooks in 45 properties, which, as I said earlier, is more than any other B2B or B2C sportsbook in the state launched post-PASPA.



With more states to come, as well as expansion of our current partners, you can expect the number to grow substantially over the coming 12 months. Finally, on to slide 18. To summarize, it has been a return to form for Kambi following a difficult Q2. In Q3, we delivered a record financial performance. As part of it, we have proven our scalable business model, delivering strong operating margin. What has been pleasing of late is that we have carried this momentum into Q4, with October delivering a strong performance with growth accelerating, and we look forward to pushing on further over the final two months of the year. Now I will pass over to the operator for questions.

## Q&A

---



Thank you. Our first question comes from the line of Erik Lögdberg from ABG. Please go ahead.



Hi, and thanks for taking my questions. 43% of Q3 turnover was generated in September, which you then guided has accelerated into Q4. Aside from NBA, is there anything else that has a negative impact sequentially and on a year-over-year basis if we look at the full Q4?



Hi, Erik. Yes, I would say ice hockey will have a little bit of a similar pattern, since the NHL also had a very prolonged season into Q3. Other than that, nothing that I can see.



Got it. All things equal, given that you will also see the full effect for the Barstool brand, and you will also have contribution from Tennessee, you should at minimum be able to have an average monthly turnover in line with September for the full Q4. Is that a fair assumption?



I would say that's a very fair assumption, yes.



Got it. Thanks. In terms of the new contract with the Belgian National Lottery, do you have any view on the type of market share the sports betting brand possessed in the past? If you have any guidance in regards of what market share it targets going forward?



I can't really communicate anything on that at this point, Erik. Yeah, I can say this much. They're coming from quite a low number. They are certainly not a market leader in the Belgium market at the moment.



Fair enough. In regards of Virginia sports betting, it is expected to launch in Q1 2021. Should we expect DraftKings to launch in Virginia with SBTech or with you guys?



I don't want to comment on that at this point.



Got you. Just in general, obviously you're experiencing rapid growth. If you could give some more flavor on the growth in receivables and how you work to improve working capital into Q4.



Erik, David here.



Yep.



This movement in receivables is entirely linked to the growth in revenue. At any period end, we have two months outstanding because it's the month before and then the invoice issued right at the end of the month at the end of the period. Versus Q2, of course, revenues are significantly higher. That directly translates into a higher debtors balance at the end of Q3. That balance, half of it has been recovered since the end of the quarter. Absolutely no concerns with the increase in debtors at the end of the quarter. If revenues are stable, then debtors are typically stable. If they go up, revenues go up, debtors go up. It's a very safe pattern, and we're very happy with the position.



All right. Fair enough. Thank you very much. That's all from me.



The next question comes from the line of Marlon Värnik from Pareto Securities. Please go ahead.



Hi. Good morning, Kristian, David. First, a follow-up question on October here. You mentioned that the strong trend from September has continued into Q4. Have you seen this trend also as strong in the U.S., given that basically it's only NFL ongoing, or have you seen it offset by new launches in the U.S.?



I think the major sport still by quite some margin is American football. I would say that we see a very positive trend in the U.S. as well.



All right, good. Second question, can you also comment a bit on the initial free bets and bonuses offered recently? How big of a short-term impact, negative impact you've seen in the U.S. market? What can you say here?



I think the important thing from a Kambi perspective is we cap the amount that can be deducted. In terms of what impacts our revenues, it's a known quantified amount, kind of before we get into any contract. That's why you see a fairly stable reduction on the waterfall we show because we know exactly the capped amount that can be deducted before we calculate commission.



All right. On Churchill Downs, how should we view the long-term potential of Churchill Downs contract in relation to other U.S. partners, for example, RSI, and what can you tell about the rollout plan here?



It's always hard to know the potential, but they have great market access. They are one of the largest when it comes to having already a network in different states. From that perspective, it's very high potential. As we talked about, their customer base within the racing is quite fantastic. If they can transform that into sports betting as the ATG was successful doing it in Sweden, for instance, they have a very good chance of being one of the leading brands in the U.S. going forward.



Interesting. Can you say anything about the rollout plans here for Churchill Downs in the next couple of quarters?



Not anything specific. They have a quite aggressive plan to roll out into more states. I hope they will be very present in the next 12 months, both online and retail in several more states at the moment.



Mm-hmm. Great. Can you also give a comment of the outcome and your exposure on the U.S. election, and if you can give some color of the turnover in the event compared to other events?



Yeah. First of all, the U.S. election actually is quite high turnover. You have to remember that you can't bet on political events in the U.S. at the moment. It's only European turnover, actually. It will not be significant for us either outcome of the election in the end. It's still less than a regular Champions League game, I would say. Yeah. Big events will be in politics, compared to a large Champions League match, it's not that big. All right. That's all from me now. Thanks.



Thank you.



The next question comes from the line of Victor Herberg from DNB. Please go ahead.



Yeah, good morning. I have a couple of questions. The first one is on the waterfall and the FX effects. I think this is the first time you've put forth the number or the figure of a turnover growth in local currencies as well. Is that correct, and is that why the FX effect in the waterfall is so large? The net effect is not as much.



No, we have disclosed it before, but it's probably more noticeable this time. I think we've seen movements both from the Colombian peso against the euro and the US dollar against the euro. Normally it's there, but a very small amount. It has been a bit bigger this quarter. Yeah, it's around EUR 1 million, I think, if you translate from the waterfall into real money. So versus using Q3 2019 FX rates, it would have been EUR 1 million higher. Yeah, first time I've seen. Clearly material.



Okay. Also, I just want to double-check on Erik's question earlier on the implied turnover comment on the start to the fourth quarter with the average monthly turnover in line with September being a fair assumption. 288 times three, would that be a fair assumption as a baseline for Q3? Is that how we should read that comment?



Yes, I would say that's a fair assumption.



Okay. Seems like a strong start then. Last question. U.S. out of the Americas, how much is that? Did you quantify it? I didn't find it in the report.



We didn't quantify it in the report, it's in the range of 30%-40% of the total. Of the 43, 30-40 is U.S., the rest is Central and South America.



Okay. Thank you very much.



We have one more question from the line of Hjalmar Ahlberg from Kepler Cheuvreux. Please go ahead.



Thank you. Just wanted to have a question around potential for a new contract in Europe. You saw the Belgian National Lottery win here. We are seeing now Germany regulating and Netherlands regulating. Are these countries, do they have potential to add new clients of this type?



We always hope to win new clients, of course. Yeah, of course, regulations has always been a good catalyst for new business. Obviously, we hope for some new opportunities in both Netherlands and Germany.



Thanks. The other question on the revenue mix, you've added a lot of new clients. I don't know if you can comment, but I think in 2019, you said that two largest clients were 58% of revenue. Can you say if this has changed anything in terms of dependence on large clients?



We'll give the full year numbers in the annual report. I think when you say that 30%-40% is from the U.S., you can see that there's probably a shift in the numbers in those kind of reliance on specific customers. Yeah, we'll give you the full numbers in the next annual report, but it probably will be a little bit different to last year.



Okay. Those were the questions from me. Thank you.



We have just one follow-up question from the line of Marlon Värnik from Pareto Securities. Please go ahead.



Yeah. Hi, it's Marlon again. What can you tell us regarding the potential partner expansion plans in Maryland, Louisiana, South Dakota, who voted for sports betting in the U.S. election?



Some of our partners already have market access into both Maryland and Louisiana. South Dakota is a very small state, not sure if anything That will not be very important, but I'm sure we will see some of our customers will probably go in there as well. Both in Maryland and Louisiana, our existing customer base already have some market access, and I would expect more to find ways to get market access.



Given that the U.S. market is legalizing at a rapid pace, how should we now think about OpEx in the long term?



Certainly our plans are to keep growing costs in the controlled way we've seen before. The growth of the U.S., it does bring some additional licensing costs, but it's nothing that materially changes the path of our cost growth. Where we are growing costs, it's because we're doing it to really improve our service, with recruitment and product improvement. I don't see the continued growth of the U.S. market necessarily shifting our cost base to what it has been in the past.



All right. Cool. Final question, a more nitty-gritty question. Have you seen recently, do you find it more difficult to price markets or more obscure leagues, given that some of the professional sportsbook brokers have recently suspended its offering on those kind of markets?



Not sure I understood the question. Can you expand?



Basically, some professional sportsbook brokers, they have taken away the more obscure leagues markets, at least lowered the limits on those. Have you found it now recently, last month, more difficult to price those markets to your customers?



No, I guess the biggest issue here is, of course, having sufficient information to understand if they can field a team. That becomes an even bigger issue in a market like Sweden, where you also have the regulations that are controlling you're not having under 18 players. I think that is probably a much bigger concern for us, to be able to follow regulations when teams are depleting their squads rather than the pricing of it. Of course, if you don't have information about half a team being out, it makes your pricing poor for a very short while. That is not as a big issue, I would say. It's more of integrity concerns and regulatory concerns that we would not price something out rather than that we're uncertain about the pricing.



All right. Thank you, Kristian. Thank you, David.



Thank you very much.



As there are no further questions, I'll hand it back to the speakers for closing remarks.

## Kambi Group

Q3 2020 | Nov 6, 2020 08:00



All right. Thank you all for your questions and for listening in. We look forward to updating you on the 10th of February 2021, when we publish the fourth quarter report of 2020. Thank you